



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

June 25, 2009

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To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", written over a horizontal line.

SACRAMENTO UPDATE

This memorandum contains an update on: 1) Senate and Assembly votes on three measures to address the State Budget cash flow problem; 2) a new proposal by the Department of Finance (DOF) for additional reductions to offset the previously proposed borrowing from local governments through the suspension of Proposition 1A of 2004; and 3) the status of County-advocacy legislation on three bills.

State Budget

Senate and Assembly Vote on the State Budget

Today, the Assembly approved three bills which according to Assembly Budget Committee Chair, Noreen Evans, would provide approximately \$5 billion in funding to address the State's dire cash flow problem and prevent the issuance of registered warrants (IOUs) by the State Controller on July 2, 2009. All three measures received bi-partisan support with no votes against.

In the Senate, however, Republican members rejected the plan agreeing with the Governor who vowed earlier in the day to veto the proposed bills because the package does not solve the entire \$24.3 billion State Budget deficit. All three bills were granted reconsideration, and the Senate is scheduled to reconvene tomorrow to further deliberate on these measures.

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The three bills are:

- **SB 64 (Committee on Budget and Fiscal Review)**, which would generate \$3 billion in State General Fund savings in FY 2008-09 by reducing funding for K-12 schools and higher education.
- **SB 74 (Committee on Budget and Fiscal Review)**, which would provide approximately \$2 billion in cash deferrals in FY 2008-09 for Proposition 42, K-12 schools, and higher education payments. This measure would defer \$288 million in Proposition 42 allocation payments to cities and counties for October 2009 and January 2010 with full repayment by May 31, 2010. **According the Department of Public Works, if enacted, this measure would defer an estimated \$13.5 million per quarter for a total of \$27 million in FY 2009-10.**
- **SB 80 (Committee on Budget and Fiscal Review)**, which would shift \$350 million from Redevelopment Agencies (RDAs) to Educational Revenue Augmentation Funds in FY 2008-09. **As reported in the June 18, 2009 Sacramento Update, if enacted, the estimated impact to the County General Fund in FY 2008-09 would be approximately \$565,000. Additionally, the Community Development Commission estimates that the shift of property taxes from RDAs would result in a loss of \$300,000.**

In addition, State Treasurer Bill Lockyer and State Controller John Chiang issued a statement today urging the Legislature and the Governor to approve these measures to avoid the necessity for California to issue IOUs to local governments, businesses, and taxpayers. Both stated through a press release that while the bills do not solve the massive budget gap, they would provide the needed cash to continue to pay California's bills. The State Treasurer and State Controller further noted that failure to act on these measures could undermine the State's ability to sell long-term general obligation bonds.

Department of Finance Proposed Options for Additional Cuts to Offset Proposition 1A of 2004 Borrowing

As reported in the June 16, 2009 Sacramento Update, the Conference Committee rejected the Governor's proposal to borrow \$1.98 billion from local governments by suspending the Protection of Local Government Revenues Act of 2004 (Proposition 1A). The Governor subsequently indicated that he would no longer pursue Proposition 1A borrowing to address the State Budget deficit if other options could be found.

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In a June 24, 2009 letter to the Governor, DOF Director, Mike Genest, proposed an alternative to the Proposition 1A borrowing: 1) eliminate the State's contribution to employee health benefits for savings of \$1 billion in FY 2009-10, and 2) eliminate the State's share of costs for the Child Welfare Services (CWS) and Foster Care programs for an estimated savings of \$890 million.

The Department of Children and Family Services (DCFS) indicates that, if enacted, the DOF option would result in the loss of all State funding to the County for Child Welfare and Foster Care services and administration of these programs. In addition, according to DCFS, this would violate the terms and conditions of the Title IV-E Waiver and could result in the loss of Federal funding to the County. DCFS further notes that this option would be detrimental by resulting in the decimation of the Department's programs and services for vulnerable children who have been subject to abuse, neglect, and abandonment. This office is working with DCFS to determine the impact of this option.

Status of County-Advocacy Legislation

County-supported AB 682 (Lowenthal), which would require the California Department of Social Services to evaluate implementation of provisions to combat fraud in the In-Home Supportive Services Program and to provide a report to the Legislature with findings and recommendations, passed the Senate Human Services Committee with technical amendments by a vote of 4 to 1, on June 23, 2009. The measure now proceeds to the Senate Appropriations Committee.

County-supported AB 719 (Lowenthal), which, as introduced on February 26, 2009, would establish the 12-month Transitional Food Stamps for Foster Youth Program, passed the Senate Human Services Committee by a vote of 4 to 1, on June 23, 2009. The measure now proceeds to the Senate Appropriations Committee.

County-supported AB 1058 (Beall), which, as amended on June 1, 2009, would exempt motor vehicles from the CalWORKs eligibility asset test, eliminate the asset limits for CalWORKs recipients, and allow CalWORKs applicants to retain savings of up to \$2,000 with annual adjustments based on changes in the California Needs Index, passed the Senate Human Services Committee by a vote of 3 to 2, on June 23, 2009. The measure now proceeds to the Senate Appropriations Committee.

We will continue to keep you advised.

WTF:GK
MR:IGEA:sb

c: All Department Heads
Legislative Strategist